A&P

In Preparation for Leadership

The Great Atlantic & Pacific Tea Company, Inc. Annual Report 1988

Introduction

Seasons of decline, renewal and growth evolve more slowly in commerce than on the calendar.

Seven years ago, A&P ended a long period of erosion, and planted the seeds for a new cycle of growth. This was done with the knowledge that permanent improvement would take time to develop.

By the comparative measures of corporate and industry performance, our efforts have been successful. Yet in our view, the progression is still in its youth.

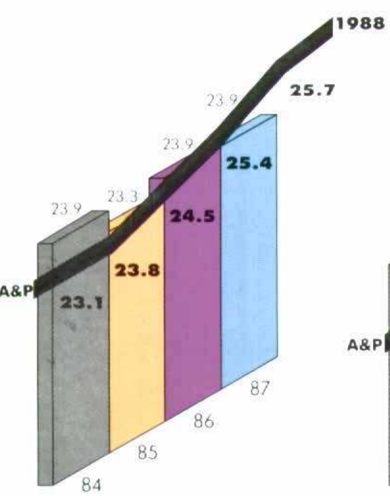
In 1982, few outside the Company believed that the restoration of consistent profitability was achievable. But even as improvement was materializing, our sights were set on still greater possibilities ahead.

In the ensuing years, we worked to restore A&P from outdated imitator to innovator, discarding old rules and pursuing new concepts in business systems and controls, labor-management cooperation, store format adaptation, and the establishment of strong regional identities.

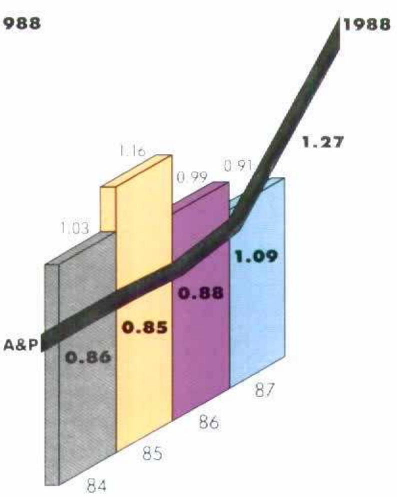
At the edge of a new decade, we continue to build on those innovations, while again looking ahead to our next objective.

Now confident that the return to industry leadership can be a reality, our mission is to convert opportunity to progress, and again make A&P the best in the business.

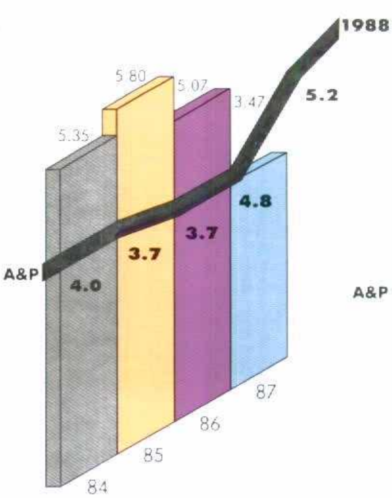
Gross Margin
Percentage of Sales



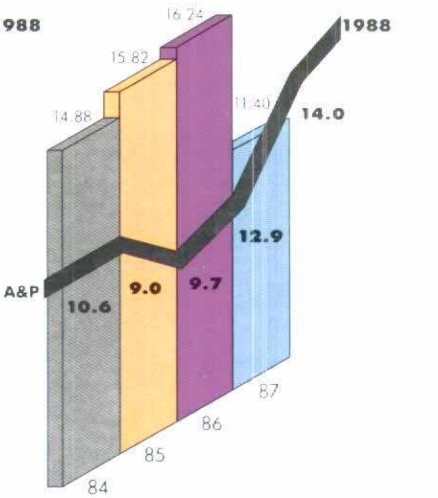
Return on Sales
(Net Income after Taxes, before Extraordinary Credits)
Percentage



Return on Assets
Percentage



Return on Equity
Percentage



Bar charts equal Industry averages/Numbers are based on Food Marketing Institute research. 1988 Industry averages not yet available.

A&P trend numbers are in bold face.
Industry numbers are in light face.

Business Performance

In the 1983 annual report, management described A&P as a "threshold" company—one that could expect a better than average rate of financial growth. That assessment was based on the results of the turnaround program of 1982, which converted A&P to a smaller but profitable base with an improved financial position.

Since then, that base has indeed proven to be a solid platform for growth. Adherence to a low cost structure, investment in existing stores and key acquisitions have produced a net income growth rate averaging approximately 35% since 1983, well above our goal of 20% per year. Without acquisitions or extraordinary items, earnings growth for 1988 again exceeded the 20% objective.

With volume increasing beyond the $10 billion mark, our net income before extraordinary credits as a percentage of sales climbed to 1.27% from .60% in 1983, outpacing the industry average. This reflects improved efficiency, store development and upgraded merchandising, with emphasis on higher-margin perishable items. Our changing product mix has produced a gross margin at the top of the industry, achieved alongside pricing parity with leading

competitors in most of our major markets.

Our six-year comparisons are equally favorable from the investor viewpoint. Shareholder equity has risen by nearly $600 million over that period, to more than $970 million; earnings per share have improved to $3.34 from 84¢, and market value at year end was $48, twice what it was just two years ago and a dramatic increase from the low of $4 in 1982. Accompanying that progression was the formation of one of the supermarket industry's strongest balance sheets, and lowest debt positions.

Having crossed the threshold, A&P will maintain the disciplines and strategies that brought us this far, while continually seeking additional opportunities for expansion and improvement.

Marketing Strategies

Is the weekday morning and afternoon supermarket shopper becoming extinct? Has the health and nutrition rage destroyed the appeal of soft drinks, snacks and desserts? Is traditional meal planning and preparation a thing of the past?

Of course, the answer to those questions is no. But the exaggeration is used to make a point. To understand our retailing approach, one must look beyond the generalizations that sometimes spring from the term "niche marketing."

Success in multi-regional food retailing requires the ability to perceive nuances of customer behavior. That means recognizing commonality as well as difference.

It's clear that A&P, Waldbaum's, Dominion, Super Fresh, Kohl's, Farmer Jack and Food Emporium differ not only in name, but in the ethnic and demographic shadings of their clientele. Our varied store formats under those banners are classified not merely by industry terminology, but by their satisfaction of localized demand for variety, service and price.

Yet all of our stores must respond to consumer interests that have become national and even

global in scope. More healthful eating, and the enthusiasm for gourmet products and international cuisine all transcend regionality.

Finally, we must remember that consumers are not one-dimensional. We are a time-pressed, microwaving society that pauses to prepare and enjoy an elaborate meal...We exercise strenuously, then reward ourselves with a rich dessert ...We stress fresh, natural foods and check for sodium and cholesterol, yet remain devoted to snacking.

Truly effective marketing must address all of the realities, not just the generalities. We design and operate our stores to appeal to the broadest elements of their markets, but with the flexibility to accommodate the various segments within them.

Response to Customer Needs

We are constantly challenged by consumers who expect all the familiar virtues of the traditional supermarket, but demand much more in the way of selection and convenience.

For A&P, with stores in 25 states, the District of Columbia and Ontario, Canada, the response is the operation of several retailing formats, under eight different trading identities, across six geographic regions. Although this approach poses problems that never confronted retailers in the "one-size-fits-all" era of supermarketing, there are synergistic benefits as well.

The effort to satisfy all types of customers has improved our ability to serve our loyal customer base. For instance, while broadening the everyday appeal of the Food Emporium stores in New York, we have enhanced many of our other stores with elements of a gourmet and specialty food flair. By operating both upscale and more promotional superstores, we have improved the attractiveness and efficiency of both. And our years of experience with alternative formats has helped us tailor our more conventional supermarkets to the changing needs of their varied neighborhood shoppers.

We are also directing attention to the continued consumer emphasis on product quality. Our exclusive Master Choice private label line, now in development, will eventually encompass a broad range of imported and domestic products manufactured to our own specifications...that means the best possible quality, with fewer preservatives and other additives.

Our long-term goal is to maximize customer confidence; in our stores, the products we sell and our ability to fulfill their needs.

Personnel Initiatives

Despite growing technical sophistication, the greatest single factor in A&P's future growth and success will be our people.

The professionalism and service orientation of store management and personnel will define the Company's customer image throughout our operating regions... and that growing store network is supported by people in a host of key roles in offices, warehouses and factories.

Combined, they are the essence of the Company; it is management's responsibility that all are prepared and motivated to perform with skill and pride.

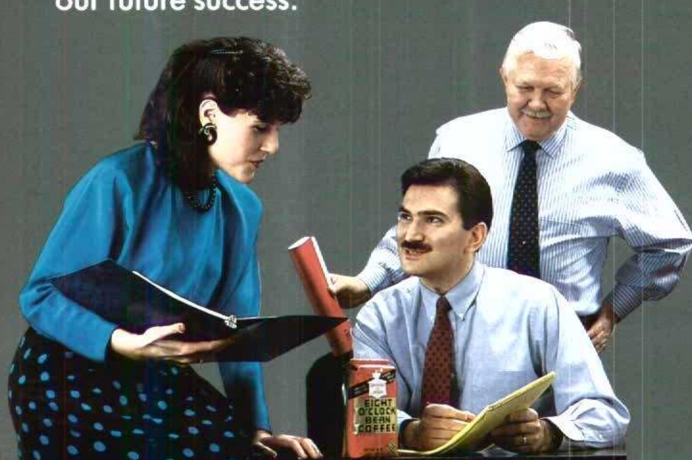
The range of skills necessary for success has grown, and we are addressing that fact with training and orientation programs involving all key areas.

We also recognize that the dynamics of motivation have changed, with the "average" worker going the way of the "typical" consumer. Traditional elements of job satisfaction have evolved into a range of individualized concerns, which include the potential for professional and financial growth.

Increasingly, we have structured our system to respond to those considerations. Our management incentive programs are based on corporate profitability, and all of our store managers participate in a bonus program based on achievement of sales and profit goals for their units.

The best example of worker participation, motivation and incentive is the Super Fresh system, now in place in more than 25% of our stores. A voice in the operation of the stores and a personal stake in their success today motivate all involved to enhance customer service and productivity.

We believe the concept of individual involvement with rewards based on performance is key to our future success.



Corporate Citizenship

As a major business entity, and corporate citizen of more than 1,200 communities in the United States and Canada, we have unique opportunities to help our neighbors through programs at the local, state and national levels.

A satisfying byproduct of our success has been the ability to respond to those opportunities in a significant way in recent years.

Of course, the charitable activity most readily associated with our Company involves food, specifically the support of efforts to aid the hungry. In 1988, Chairman James Wood accepted a special citation from then-President Ronald Reagan at the White House, in recognition of A&P's contribution to food banks and similar assistance programs.

Last year, we contributed more than $1 million worth of wholesome, nutritious food, used our truck fleet to transport government surplus to community food banks, and worked closely with suppliers and local fund raisers in a variety of collection efforts to support such programs.

In addition, we maintained active participation in fund raising efforts for numerous civic, social and disease research organizations, such as The

United Way, UNICEF, the United Service Organization, Scouting, Multiple Sclerosis, the March of Dimes, St. Jude's Hospital for Children and many others.

Yet our closeness to the people we serve extends this involvement beyond corporate stewardship, to individual expressions of good will and concern…it is the employee delivering groceries to an elderly shut-in…a manager donating food and supplies to civic and social events in his or her community…an executive taking time to teach a Junior Achievement course at a local school…a store becoming the focal point of efforts to aid a local family burdened by a calamitous illness or event. Supermarkets and the people who make them work are an integral part of the communities they serve.

We believe that true leadership entails a commitment to support activities that improve the lives of all of our neighbors. We will continue to honor that commitment.

To Our Shareholders:

Fiscal 1988 was a year of continued progress for A&P, with the major new development occurring toward the end, as we completed the acquisition of Borman's, Inc. in Michigan.

To recap our results for the fiscal year ended February 25, 1989, net income rose 23% to $127.6 million or $3.34 per share from $103.4 million or $2.71 per share in the year ended February 27, 1988. Sales were $10.1 billion, compared with $9.5 billion the prior year.

The ongoing consolidation of Borman's and our Michigan Group under the Farmer Jack name reflects a strategy we have pursued since 1983, namely the acquisition of regional chains with good locations and strong consumer franchises. Our policy of combining their local identities and merchandising styles with our business review and control systems has been a successful formula; over the past five years, it has resulted in market leadership and solid profitability in Ontario, Canada and Metro New York.

This latest acquisition elevates us to the number one position in the Detroit market as well. Combined with our steadily improving Kohl's group in Wisconsin, it will give us a stronger and more profitable base in the Midwest.

Substantial progress was made in our two largest operations, the Canadian Company and Metro New York. Our improvement in Canada was most notable considering the heavy competitive development and hostile trading conditions that affected our results in 1987. We maintained a very competitive merchandising and pricing strategy for A&P stores in 1988, while projecting a more upscale image for the Dominion group in Toronto. This approach resulted in a strong sales rejuvenation during 1988 and combined with continued capital development should enable the Canadian Company to maintain those positive trends into 1989.

In Metro New York, we continued development of our three entities, A&P, Waldbaum's and Food Emporium, opening new stores under all three banners. Concentrating on profit enhancement in A&P and Waldbaum's and the fine-tuning of the Food Emporium merchandise mix, the combined operations again contributed importantly to overall Company results.

Super Fresh performed well in Philadelphia, despite the debut of that city's first hypermarket, and its impact on margin conditions in the surrounding area. By making the investment necessary to protect the stores immediately affected, we maintained our strong position in that market. We again expanded the use of the Super Fresh name, with the conversion of our Baton Rouge area A&P stores in 1988. The change produced impressive sales improvement.

Although separated geographically, there are parallels between our New England and Mid-Atlantic operations. Both increased sales and profits in 1988, but need greater penetration and store development to achieve desired market share improvement. Our presence in New England has been improved by the addition of the Waldbaum's Food Mart division, and the Mid-Atlantic conversion to Super Fresh has strengthened our merchandising and service image there. In both regions we will strengthen existing stores through capital development, while seeking opportunities for expansion.

Our investment in the Southern operations was once again minimal, with growth potential hindered by non-union competition in Virginia and the Carolinas, and severe overstoring in the Atlanta market. A positive note was the aforementioned success of the Super Fresh conversion in Baton Rouge. With signs of improvement materializing in Louisiana's economy, the potential for progress may develop in the near future.

In light of the varied degrees of success and development throughout our regional groups, it is important that we maintain a long-range view to

establish firm direction for the entire organization. Accordingly, we will work closely with regional management to formulate a comprehensive, long-term strategic plan, establishing realistic objectives, tactical actions and capital requirements.

Alongside store operations, there are major support aspects that must accompany the next stage of our Company's growth. Among the most important is the productive use of technology. State-of-the-art scanning is a necessity, both to improve customer service and front-end accuracy, and provide vital product movement information to drive computerized inventory control systems. Our program to retrofit existing stores and equip new ones with the latest systems is progressing on schedule and will encompass nearly half of all stores in 1990.

We are also using computer technology to initiate a more effective centralized purchasing system, to take full advantage of our buying leverage. The system will link our regions to provide instantaneous information regarding product offerings and terms at headquarters.

As always, the future holds its share of challenges. But there are also opportunities, particularly in markets where competitors bear the burden of heavy debt loads resulting from leveraged buyouts or restructurings. With A&P's balance sheet one of the strongest in the industry, we have the means to exploit those opportunities for market growth.

With clear objectives, firm plans for their achievement and ongoing emphasis on store development and cost control, I am confident that continued, significant growth can be achieved in 1989 and beyond.

James Wood

James Wood
Chairman of the Board, President
and Chief Executive Officer

Executive and Operations Management

From left
Michael Larkin, Senior Vice President, Operations
Joseph H. McCarthy, Executive Vice President, Chief Operating Officer
Fred Corrado, Executive Vice President, Chief Financial Officer and Treasurer
James Madden, Senior Vice President, Operations
Eckart C. Siess, Vice Chairman
James W. Rowe, Vice Chairman

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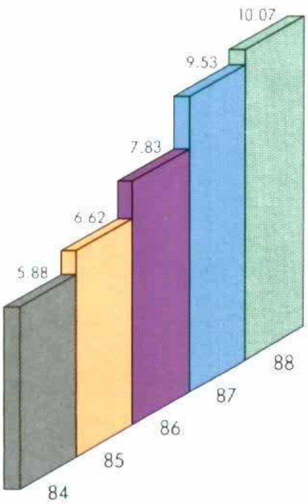
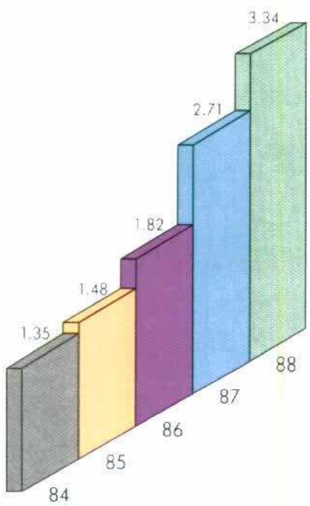
Comparative Highlights

(Dollars in thousands, except per share figures)	**Fiscal 1988** (52 weeks)	Fiscal 1987 (52 weeks)	Fiscal 1986 (53 weeks)
Sales	**$10,067,776**	$9,531,780	$7,834,859
Income before extraordinary credits	**127,582**	103,443	69,010
Net income	**127,582**	103,443	95,010
Income per share before extraordinary credits	**3.34**	2.71	1.82
Cash dividends per share	**.575**	.475	.40
Expenditures for property	**176,148**	230,385	163,239
Working capital	**90,637**	62,710	93,418
Current ratio	**1.09**	1.07	1.12
Shareholders' equity	**970,843**	851,310	755,718
Book value per share	**25.42**	22.32	19.85
Number of stores at year end	**1,241**	1,183	1,200

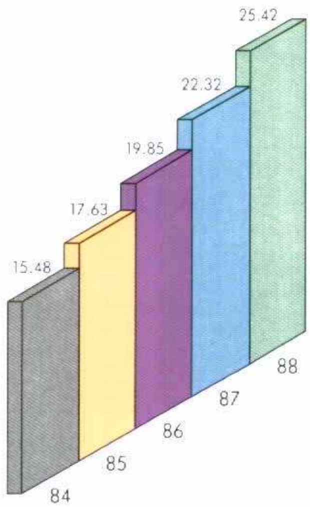
Comparative Sales
Billions of Dollars



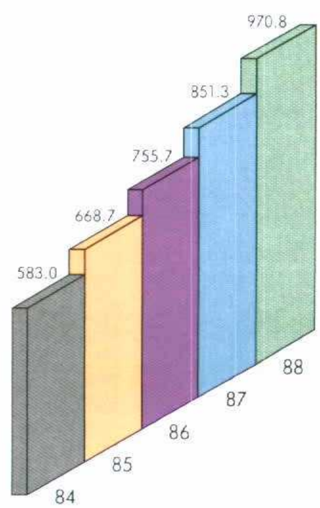
Earnings per Share Before Extraordinary Credits
In Dollars



Book Value per Share
In Dollars



Shareholders' Equity
Millions of Dollars



Management's Discussion and Analysis

Operating Results

Fiscal 1988 Compared with 1987

Sales for fiscal 1988 were $10.1 billion reflecting a 5.6% increase over sales for fiscal 1987 of $9.5 billion. The increase in sales includes the January 1989 acquisition of 81 Borman's stores, a stronger Canadian exchange rate, the opening of 22 new stores and the remodeling of 76 existing stores during the year partially offset by the closing of 45 obsolete stores. Average weekly sales per store for the year increased 6.0% to $164,300 from $155,040.

Gross margins as a percent of sales of 25.7% increased .3% over the previous year. The increase reflects an improvement in product mix and aggressive containment and management of product costs.

Store operating, general and administrative expense as a percent of sales was 23.0% compared to 22.9% during the prior year. The increased rate includes higher labor and employee benefit costs partially offset by a lower rate of store occupancy expenses.

The decrease in interest expense reflects a reduction in borrowings from the prior year.

The Company's effective tax rate for fiscal 1988 was 43.0% compared to a 45.0% rate for the prior fiscal year primarily due to lower U.S. and Canadian statutory rates.

Fiscal 1987 Compared with 1986

Sales for fiscal 1987 were $9.5 billion as compared with $7.8 billion in fiscal 1986, a 21.7% increase. Average weekly sales per store for the period increased from $135,121 to $155,040 for an increase of 14.7%. The increase in sales reflects the acquisitions of Waldbaum, Inc. and Shopwell, Inc., the opening of new stores and the remodeling of existing stores.

Gross margins as a percent of sales increased .9% over the prior year from 24.5% to 25.4% resulting primarily from cost reductions due to a more aggressive purchasing policy and a better product mix.

Store operating, general and administrative expense as a percent of sales increased to 22.9% for the current year from 22.5% for the prior year primarily due to the increased costs and expenses associated with store labor, employee benefits and occupancy costs.

The increase in interest expense is due to the assumption of borrowings resulting from the acquisitions of Waldbaum, Inc. and Shopwell, Inc. The decrease in interest income is due primarily to the disposition of marketable securities to finance the Company's fiscal 1986 acquisitions.

Although the Company's effective tax rate decreased to 45.0% in fiscal 1987 from 46.8% in fiscal 1986, the provision for income taxes increased as a result of increased profitability.

Fiscal 1986 Compared with 1985

Sales for fiscal 1986 were $7.8 billion as compared with $6.6 billion in fiscal 1985, an 18.4% increase. Average weekly sales per store for the period increased from $118,266 to $135,121 for an increase of 14.3%. The increase in sales reflects the acquisitions of Waldbaum, Inc. and Shopwell, Inc., the construction of new stores, the remodeling of existing stores and 53 week results for fiscal 1986 as compared to 52 week results for fiscal 1985. This increase was partially offset by the closure of 73 stores including the fourth quarter sale of 21 Family Mart combination stores.

Gross margins as a percent of sales increased .7% over the prior year from 23.8% to 24.5% resulting primarily from cost reductions due to a more aggressive purchasing policy.

Store operating, general and administrative expense as a percent of sales increased to 22.5% for the current year from 22.0% for the prior year primarily due to increased costs and expenses associated with store labor and store development programs.

The increase in interest expense is due to the assumption of borrowings resulting from the acquisitions of Waldbaum, Inc. and Shopwell, Inc.

Although the Company's effective tax rate decreased to 46.8% in fiscal 1986 from 48.6% in fiscal 1985, the provision for income taxes increased as a result of increased profitability. This increase was partially offset by an extraordinary credit representing the utilization of the Company's U.S. Federal tax carryforwards.

Management's Discussion and Analysis (continued)

Liquidity and Capital Resources

The Company ended the fiscal year with working capital of $91 million compared to $63 million and $93 million at February 27, 1988 and February 28, 1987, respectively. The Company had cash and short-term investments aggregating $44 million at the end of fiscal 1988 compared to $54 million and $62 million at the end of fiscal 1987 and 1986, respectively. The Company also has in excess of $500 million in various available credit facilities.

During fiscal 1988, the Company financed its capital expenditures, debt repayments, cash dividends and the acquisition of Borman's, Inc. through internally generated funds supplemented by external borrowings. During fiscal 1988, the Company's Canadian subsidiary repaid $17 million of Canadian commercial paper borrowings which were outstanding at February 27, 1988. The Company commenced the initial issuance of U.S. commercial paper during fiscal 1988 and had outstanding commercial paper borrowings of $100 million at February 25, 1989. Combined U.S. bank and commercial paper borrowings increased during the fiscal year from $43 million at February 27, 1988 to $167 million at February 25, 1989. Average outstanding U.S. bank and commercial paper borrowings during fiscal 1988 were $26 million at an average interest rate of 8.1%.

The Company's current cash resources, together with available credit facilities and income from operations, are sufficient for the Company's capital expenditure program, debt retirements and dividend payments in fiscal 1989.

Statements of Consolidated Operations

(Dollars in thousands, except per share figures)	**Fiscal 1988** (52 weeks)	Fiscal 1987 (52 weeks)	Fiscal 1986 (53 weeks)
Sales	**$10,067,776**	$ 9,531,780	$ 7,834,859
Cost of merchandise sold	**7,481,373**	7,112,915	5,912,746
Gross margin	**2,586,403**	2,418,865	1,922,113
Store operating, general and administrative expense	**(2,319,044)**	(2,183,498)	(1,762,789)
Income from operations	**267,359**	235,367	159,324
Interest expense	**(48,535)**	(51,921)	(47,822)
Interest income	**4,958**	4,497	17,908
Income before income taxes and extraordinary credits	**223,782**	187,943	129,410
Provision for income taxes	**(96,200)**	(84,500)	(60,400)
Income before extraordinary credits	**127,582**	103,443	69,010
Extraordinary credit—utilization of tax carryforwards	**—**	—	26,000
Net income	**$ 127,582**	$ 103,443	$ 95,010
Per common share:			
Income before extraordinary credits	**$ 3.34**	$ 2.71	$ 1.82
Extraordinary credit—utilization of tax carryforwards	**—**	—	.68
Net income	**$ 3.34**	$ 2.71	$ 2.50

Statements of Consolidated Shareholders' Equity

(Dollars in thousands)	**Fiscal 1988** (52 weeks)	Fiscal 1987 (52 weeks)	Fiscal 1986 (53 weeks)
Common stock:			
Balance beginning of year	**$ 38,143**	$ 38,068	$ 37,939
Exercise of options	**56**	75	129
	$ 38,199	$ 38,143	$ 38,068
Capital surplus:			
Balance beginning of year	**$ 430,561**	$ 427,432	$ 424,166
Exercise of options and phantom share agreement	**6,225**	3,129	3,266
	$ 436,786	$ 430,561	$ 427,432
Cumulative translation adjustment:			
Balance beginning of year	**$ (5,282)**	$ (12,329)	$ (16,163)
Exchange adjustment	**7,976**	7,047	3,834
	$ 2,694	$ (5,282)	$ (12,329)
Retained earnings:			
Balance beginning of year	**$ 387,888**	$ 302,547	$ 222,746
Net income	**127,582**	103,443	95,010
Cash dividends	**(21,948)**	(18,102)	(15,209)
	$ 493,522	$ 387,888	$ 302,547
Treasury stock, at cost:			
Balance beginning of year	**$ —**	$ —	$ —
Purchase of Treasury stock	**(358)**	—	—
	$ (358)	$ —	$ —

See Notes to Consolidated Financial Statements on pages 21 through 30.

Consolidated Balance Sheets

(Dollars in thousands)	**February 25, 1989**	February 27, 1988
Assets		
Current assets:		
Cash and short-term investments	**$ 44,496**	$ 54,444
Accounts receivable	**152,037**	123,102
Inventories	**829,229**	735,118
Properties held for sale	**3,879**	12,942
Prepaid expenses	**39,105**	20,057
Total current assets	**1,068,746**	945,663
Property:		
Land	**83,621**	71,714
Buildings	**197,395**	194,700
Equipment and leasehold improvements	**1,408,765**	1,105,037
Total—at cost	**1,689,781**	1,371,451
Less accumulated depreciation and amortization	**(396,864)**	(276,706)
	1,292,917	1,094,745
Property leased under capital leases	**208,980**	187,639
Property—net	**1,501,897**	1,282,384
Other assets	**69,727**	15,127
	$2,640,370	$2,243,174
Liabilities and Shareholders' Equity		
Current liabilities:		
Current portion of long-term debt	**$ 60,619**	$ 57,586
Current portion of obligations under capital leases	**21,052**	20,276
Accounts payable	**531,749**	479,075
Accrued salaries, wages and benefits	**148,959**	132,603
Accrued taxes	**73,699**	60,660
Other accruals	**142,031**	132,753
Total current liabilities	**978,109**	882,953
Long-term debt	**254,312**	168,255
Obligations under capital leases	**252,618**	225,695
Deferred income taxes	**57,167**	33,541
Other non-current liabilities	**127,321**	81,420
Shareholders' equity:		
Preferred stock—no par value; authorized—3,000,000 shares; issued—none		
Common stock—$1 par value; authorized—80,000,000 shares; issued—38,198, 790 and 38,142,643 shares, respectively	**38,199**	38,143
Capital surplus	**436,786**	430,561
Cumulative translation adjustment	**2,694**	(5,282)
Retained earnings	**493,522**	387,888
Treasury stock, at cost, 9,162 shares	**(358)**	—
Total shareholders' equity	**970,843**	851,310
	$2,640,370	$2,243,174

See Notes to Consolidated Financial Statements on pages 21 through 30.

Statements of Consolidated Cash Flows

(Dollars in thousands)	**Fiscal 1988** (52 weeks)	Fiscal 1987 (52 weeks)	Fiscal 1986 (53 weeks)
Cash Flows From Operating Activities:			
Net income	**$127,582**	$103,443	$ 95,010
Adjustments to reconcile net income to cash provided by operating activities:			
Depreciation and amortization	**150,691**	143,530	103,471
Gain on disposal of owned property	**(1,479)**	(4,176)	(30,437)
Increase in receivables	**(17,625)**	(28,637)	(3,326)
Increase in inventories	**(10,213)**	(21,794)	(1,184)
(Increase) decrease in other current assets	**(13,840)**	7,881	3,620
Increase (decrease) in accounts payable	**(3,710)**	29,236	23,153
Increase (decrease) in accrued expenses	**(536)**	34,650	23,964
Increase (decrease) in other accruals	**(16,166)**	(14,084)	13,077
Increase (decrease) in deferred income taxes	**23,277**	19,807	(4,350)
Other	**(1,586)**	(18,313)	14,241
Net cash provided by operating activities	**236,395**	251,543	237,239
Cash Flows From Investing Activities:			
Expenditures for property	**(176,148)**	(230,385)	(163,239)
Proceeds from disposal of property	**21,447**	17,100	79,512
Acquisition of businesses	**(75,519)**	–	(311,043)
Decrease in marketable securities	**–**	–	254,350
Net cash used in investing activities	**(230,220)**	(213,285)	(140,420)
Cash Flows From Financing Activities:			
Proceeds from long-term debt	**180,175**	42,851	10,905
Payment of long-term debt	**(152,549)**	(46,403)	(54,759)
Principal payments on capital leases	**(22,956)**	(25,781)	(45,958)
Cash dividends	**(21,948)**	(18,102)	(15,209)
Proceeds from stock options exercised	**681**	658	970
Purchase of Treasury stock	**(358)**	–	–
Net cash used in financing activities	**(16,955)**	(46,777)	(104,051)
Effect of exchange rate changes on cash and short-term investments	**832**	895	560
Net Decrease in Cash and Short-term Investments	**(9,948)**	(7,624)	(6,672)
Cash and Short-term Investments at Beginning of Year	**54,444**	62,068	68,740
Cash and Short-term Investments at End of Year	**$ 44,496**	$ 54,444	$ 62,068

See Notes to Consolidated Financial Statements on pages 21 through 30.

Notes to Consolidated Financial Statements

Summary of Significant Accounting Policies

Fiscal Year
The Company's fiscal year ends on the last Saturday in February. Fiscal 1988 ended February 25, 1989, fiscal 1987 ended February 27, 1988 and fiscal 1986 ended February 28, 1987. Fiscal 1988 and 1987 were comprised of 52 weeks, while fiscal 1986 was comprised of 53 weeks.

Common Stock
The principal shareholder of the Company, Tengelmann Warenhandelsgesellschaft ("Tengelmann"), owned 52.5% of the Company's common stock as of February 25, 1989.

Principles of Consolidation
The consolidated financial statements include the accounts of the Company and all majority-owned subsidiaries. Minority interest of $17 million and $16 million at February 25, 1989 and February 27, 1988, respectively, is included in the balance sheet caption "Other non-current liabilities."

Inventories
Store inventories are valued principally at the lower of cost or market with cost determined under the retail method. Other inventories are valued primarily at the lower of cost or market with cost determined on a first-in, first-out basis.

Properties
Depreciation and amortization are provided on the straight-line basis over the estimated useful lives of the assets. Buildings are depreciated based on lives varying from twenty to fifty years and equipment based on lives varying from three to ten years. Equipment and real property leased under capital leases are amortized over the lives of the respective leases. Properties designated for sale have been classified as current assets.

Pre-opening Costs
Costs incurred in the opening of new stores are expensed in the year incurred.

Earnings Per Share
Net income per share is based on the weighted average number of common shares outstanding during the year. Stock options outstanding had no material effect on the computation of net income per share.

Statements of Cash Flows
In fiscal 1988, the Company adopted Statement of Financial Accounting Standards No. 95 "Statement of Cash Flows." Prior year statements have been restated to conform to the presentation required under the new standard.

Excess of Cost over Net Tangible Assets Acquired
The excess of cost over net tangible assets acquired is amortized on a straight-line basis over forty years.

Notes to Consolidated Financial Statements

Summary of Significant Accounting Policies (continued)

Income Taxes

The Company provides deferred income taxes in recognition of differences between income for financial reporting and income tax purposes. Investment tax credits are amortized over the estimated useful lives of the related assets. In December of 1987, the Financial Accounting Standards Board (''FASB'') issued Statement of Financial Accounting Standards No. 96 ''Accounting for Income Taxes'' (''SFAS 96'') which requires the implementation of a liability method for the financial accounting and reporting of income taxes as opposed to the present deferred method. Under the liability method, deferred tax balances are adjusted to reflect changes in tax rates. Presently, deferred tax balances are measured using the tax rate in effect in the year the differences arise, and are not adjusted to reflect changes in tax rates. Additionally, the statement establishes new standards for the accounting for the tax effects of acquisitions, such as Borman's, Waldbaum and Shopwell, accounted for by the purchase method. In December of 1988, the FASB issued Statement of Financial Accounting Standards No. 100 ''Accounting for Income Taxes—Deferral of Effective Date of FASB Statement No. 96'' which defers the implementation of SFAS 96 until fiscal years beginning after December 15, 1989 (fiscal 1990). The Company currently expects to implement SFAS 96 in fiscal 1990 subject to any further action by the FASB. The Company has not determined the impact of adopting the statement on its financial statements.

Retirement Plans

In fiscal 1987, the Company adopted Statement of Financial Accounting Standards No. 87 ''Employers' Accounting for Pensions.'' The effect of this change was not material to the accompanying financial statements.

Compensated Absences

The Company accrues for vested and non-vested vacation pay. Liabilities for compensated absences of $69 million and $61 million at February 25, 1989 and February 27, 1988, respectively, are included in the balance sheet caption ''Accrued salaries, wages and benefits.''

Notes to Consolidated Financial Statements

Acquisitions

In January 1989, the Company acquired all of the outstanding shares of Borman's, Inc. (''Borman's'') for approximately $78 million in cash. Borman's operated 81 retail supermarkets principally in the Metropolitan Detroit area under the tradename of Farmer Jack.

The acquisition has been accounted for as a purchase and, accordingly, the excess of cost over the Company's preliminary determination of the fair market value of net tangible assets acquired of approximately $35 million has been included in the balance sheet caption ''Other assets.'' This determination may be subsequently adjusted upon finalization of such amounts and for any future recognition of operating loss and investment tax credit carryforwards for income tax purposes.

The results of operations of Borman's have been included in the consolidated results of the Company from the date of acquisition. Pro forma sales, had the acquisition been completed on March 1, 1987 would have been $11.0 billion and $10.6 billion for fiscal years 1988 and 1987, respectively. Pro forma net income and net income per share have been omitted, as the results of Borman's prior to the date of acquisition would not materially affect the results as reported in the accompanying Statements of Consolidated Operations. Pro forma information is not necessarily indicative of the actual results that would have occurred, or the future operations of the combined companies.

During the fourth quarter of 1986 the Company, as the general partner of a partnership, acquired an approximate 95% interest in Waldbaum, Inc. (''Waldbaum'') for $277 million in cash. The shares of Waldbaum were purchased pursuant to a Stock Purchase Agreement on November 26, 1986 and a tender offer dated November 28, 1986 at $50 per share. Waldbaum operated 139 retail supermarkets in the New York, Connecticut and Massachusetts areas. In July 1986, the Company acquired all of the outstanding shares of Shopwell, Inc. (''Shopwell'') for approximately $70 million in cash. Shopwell, located in the Metropolitan New York area, operated 53 retail supermarkets. The results of operations of Waldbaum and Shopwell have been included in the consolidated results of the Company from the respective dates of acquisition.

Notes to Consolidated Financial Statements

Operations in Geographic Areas

The Company has been engaged in the retail food business since 1859 and currently does business under the names A&P, Super Fresh, Family Mart, Farmer Jack, Kohl's, Waldbaum's, Food Emporium, Food Mart, Food Bazaar, Sav-A-Center, Sun, Futurestore, Dominion and Compass Foods. Sales and revenues in the table below reflect sales to unaffiliated customers in the United States and Canada.

(Dollars in thousands)	**Fiscal 1988** (52 weeks)	Fiscal 1987 (52 weeks)	Fiscal 1986 (53 weeks)
Sales:			
United States	**$ 8,204,675**	$7,859,119	$6,178,519
Canada	**1,863,101**	1,672,661	1,656,340
Total	**$10,067,776**	$9,531,780	$7,834,859
Income before income taxes and extraordinary credits:			
United States	**$ 176,587**	$ 141,933	$ 80,559
Canada	**47,195**	46,010	48,851
Total	**$ 223,782**	$ 187,943	$ 129,410
Assets:			
United States	**$ 2,210,213**	$1,824,802	$1,700,010
Canada	**430,157**	418,372	380,216
Total	**$ 2,640,370**	$2,243,174	$2,080,226

Litigation

On March 18, 1983, a judgment was entered by the Federal Court in Newark, New Jersey, and affirmed on December 29, 1983 by the Third Circuit Court of Appeals, approving the settlement of an action brought by a former executive on behalf of himself and a class of participants in the Company's Employees' Retirement Plan. The action sought to prevent the termination of the plan and the distribution of the surplus assets to the Company. Pursuant to the settlement, the benefits to participants were increased at a cost of $50 million. On March 7, 1985, a purported class action, entitled *Ruthie Epting, et al. v. The Great Atlantic & Pacific Tea Company, Inc., et al.*, was brought in the same Federal Court against the Company, members of its Board of Directors and of its Retirement Board, and the Commissioner of Internal Revenue. The plaintiffs are persons who claim to be former employees who were discharged prior to obtaining vested pension rights under the plan. The plaintiffs seek a declaratory judgment, claiming that they were discharged under circumstances constituting a partial termination of the plan, thus entitling them to benefits under the plan as well as other relief. On January 6, 1986, the Federal Court conditionally dismissed this purported class action, ruling that the plaintiffs were within the settlement class. The court requested the Internal Revenue Service (''IRS'') to review the issue of whether any partial terminations had occurred and to present its findings to the court for further determination if appropriate. The IRS made such review and concluded on October 6, 1988 that partial terminations had occurred over the period of 1975–1981.

On February 8, 1989, the Federal Court in Newark entered a preliminary settlement order in this action. The tentative settlement provides for payments to class members who were terminated during 1975–1981 in an amount not exceeding $6,000,000 and for payments to class members terminated prior to 1975 in an amount not exceeding $400,000; and for a further payment of $1,225,000 in attorney's fees and court costs. The order is not yet final, and will be the subject of a settlement hearing after which the court will make a determination of whether the settlement should be approved. If the settlement is not concluded, the plaintiffs will have the right to pursue the allegations of the complaint in *Ruthie Epting et al., v. The Great Atlantic & Pacific Tea Company, Inc., et al.*

The Company is also involved in various other claims, administrative agency proceedings and other lawsuits arising out of the normal conduct of its business. Although the ultimate outcome of the above legal proceedings cannot be predicted, the management of the Company believes that resulting liability, if any, will not have a material effect upon the Company's financial position.

Notes to Consolidated Financial Statements

Indebtedness

Debt consists of:

(Dollars in thousands)	**February 25, 1989**	February 27, 1988
9.5% Senior Notes, due in annual installments of $10,000 through October 1, 1992	**$ 40,000**	$ 50,000
Mortgages and Other Notes due 1989 through 2011 (average interest rates of 9.9% and 9.7%, respectively)	**107,604**	116,119
Bank Borrowings at 9.7% and 6.6%, respectively	**67,225**	42,500
Commercial paper at 9.4% and 8.5%, respectively	**100,102**	17,222
	314,931	225,841
Less current portion	**(60,619)**	(57,586)
Long-term debt	**$254,312**	$168,255

The net book value of real estate pledged as collateral for all mortgage loans amounted to approximately $146 million as of February 25, 1989. Bank and commercial paper borrowings of $130 million as of February 25, 1989 and bank borrowings of $26.6 million as of February 27, 1988 are classified as non-current as it is the Company's intent to refinance these borrowings on a long-term basis.

The Company has a $100 million revolving credit/term loan agreement with banks enabling the Company to borrow funds on a revolving basis until June 1, 1990. Thereafter, the Company may convert any outstanding borrowings into a 4-year term loan, repayable in equal semi-annual installments. In addition, the Company maintains lines of credit with banks in excess of $300 million. Borrowings under lines of credit were $67.2 million and $42.5 million at February 25, 1989 and February 27, 1988, respectively.

The Company's Canadian subsidiary has an $83 million commercial paper program and a bank credit agreement whereby, at its option, may refinance its commercial paper borrowings with loans having maturities of up to 5 years. There were no outstanding Canadian commercial paper borrowings as of February 25, 1989.

Pursuant to a prospectus dated June 5, 1987, the Company may offer up to $300 million of debt securities at terms determined by market conditions at the time of sale. In addition, during fiscal 1987 the Company established a $200 million U.S. commercial paper program. The Company had approximately $100 million of commercial paper borrowings as of February 25, 1989. There were no U.S. commercial paper borrowings as of February 27, 1988. The Company is required to maintain available bank credit facilities sufficient to refinance borrowings under the commercial paper program.

Interest payments for fiscal 1988, 1987 and 1986 were approximately $19 million, $22 million and $20 million, respectively.

The Company's loan agreements contain certain financial covenants including limitations on the payment of cash dividends, the maintenance of minimum levels of working capital and limitations on the incurrence of additional indebtedness and lease commitments. At February 25, 1989 approximately $335 million of retained earnings were free of dividend restrictions.

Maturities for the next five fiscal years are: 1989–$61 million; 1990–$51 million; 1991–$49 million; 1992–$48 million; 1993–$38 million.

Notes to Consolidated Financial Statements

Lease Obligations

The Company operates primarily in leased facilities. Lease terms generally range up to twenty-five years for store leases and thirty years for other leased facilities, with options to renew for additional periods. The majority of the leases contain escalation clauses relating to real estate tax increases and certain store leases provide for increases in rentals when sales exceed specified levels. In addition, the Company leases some store equipment and trucks.

The consolidated balance sheets include the following:

(Dollars in thousands)	**February 25, 1989**	February 27, 1988
Real property leased under capital leases	**$305,995**	$270,067
Equipment leased under capital leases	**33,933**	39,628
	339,928	309,695
Accumulated amortization	**(130,948)**	(122,056)
	$208,980	$187,639

The Company entered into $3 million, $24 million and $2 million of new capital leases during fiscal 1988, 1987 and 1986, respectively. Interest paid for capital lease obligations was approximately $27 million in fiscal 1988, 1987 and 1986.

Rent expense for operating leases consists of:

(Dollars in thousands)	**Fiscal 1988** (52 weeks)	Fiscal 1987 (52 weeks)	Fiscal 1986 (53 weeks)
Minimum rentals	**$101,333**	$ 95,203	$ 81,035
Contingent rentals	**10,681**	9,949	8,148
	$112,014	$105,152	$ 89,183

Minimum annual rentals for leases in effect at February 25, 1989 are shown in the table below. All amounts are exclusive of lease obligations and sublease rentals applicable to facilities for which reserves have previously been established.

(Dollars in thousands)	Capital Leases		Operating
Fiscal	Equipment	Real Property	Leases
1989	$ 7,997	$ 43,563	$ 101,404
1990	6,545	42,680	94,948
1991	4,786	41,611	87,300
1992	2,457	40,540	79,833
1993	1,309	39,024	73,484
1994 and thereafter	675	324,213	638,327
	23,769	531,631	$1,075,296
Less executory costs	–	(6,466)	
Net minimum rentals	23,769	525,165	
Less interest portion	(3,537)	(271,727)	
Present value of net minimum rentals	$20,232	$253,438	

Notes to Consolidated Financial Statements

Income Taxes

The provision for income taxes consists of the following:

(Dollars in thousands)	**Fiscal 1988** (52 weeks)	Fiscal 1987 (52 weeks)	Fiscal 1986 (53 weeks)
Current:			
Federal	**$30,900**	$38,500	$38,500
Canadian	**20,600**	18,500	23,300
State and local	**14,100**	11,000	2,800
	65,600	68,000	64,600
Deferred:			
Federal	**24,900**	11,900	(8,500)
Canadian	**2,900**	4,600	4,300
State and local	**2,800**	–	–
	$96,200	$84,500	$60,400

The Federal income tax provision for fiscal 1986 includes a charge in lieu of Federal income tax of $26 million. This amount has been offset by tax carryforwards of an equal amount, which is included as an extraordinary credit in the Statements of Consolidated Operations. The provision for income taxes includes amortization of investment tax credits of $3 million in both fiscal 1988 and 1987 and $4 million in fiscal 1986. The Company has unamortized investment tax credits of approximately $7 million for financial statement purposes.

Income tax payments for fiscal 1988, 1987 and 1986 were approximately $64 million, $56 million and $23 million, respectively.

The deferred income tax provision results from accelerated tax depreciation offset by expenses not yet deductible for tax purposes, principally related to insurance, closed store expenses, leasing, employee benefits and tax on the undistributed earnings of Canadian subsidiaries. Deferred taxes have not been provided on approximately $15 million of undistributed earnings of the Canadian subsidiaries which are considered to be permanently invested.

A reconciliation of the Federal statutory income tax rate to the Company's effective tax rate is summarized as follows:

	Fiscal 1988	Fiscal 1987	Fiscal 1986
Federal statutory income tax rate	**34.0%**	38.0%	46.0%
State income taxes less Federal tax benefit	**5.0**	3.6	1.2
Difference between statutory rate and Canadian effective rate	**3.3**	3.0	4.0
Depreciation attributable to excess cost over tax basis of certain assets	**1.6**	1.8	0.7
Amortization of investment tax credits	**(1.3)**	(1.6)	(3.1)
Capital gains	**—**	–	(2.6)
Other, net	**.4**	0.2	0.6
Effective income tax rate	**43.0%**	45.0%	46.8%

The Company's Chief Executive Officer has received payments from Tengelmann in accordance with a phantom stock agreement. Under the terms of this agreement, the Company will recognize these payments as deductions for Federal income tax purposes, but based upon the facts and circumstances of the agreement, such payments do not represent compensation expense for financial statement purposes. Accordingly, the reduction of taxes currently payable attributable to these payments has been recorded as a credit of $5.6 million, $2.5 million and $2.4 million in fiscal 1988, 1987 and 1986, respectively, to the capital surplus of the Company.

Notes to Consolidated Financial Statements

Retirement Plans and Benefits

In February 1988 the Company adopted, retroactive to March 1, 1987, Statement of Financial Accounting Standards No. 87 ''Employers' Accounting for Pensions'' (''SFAS 87'') for its defined benefit pension plans. Pension expense and the related disclosures for fiscal 1988 and 1987 were determined under the provisions of SFAS 87. Pension expense for fiscal 1986 was determined under accounting principles previously in effect.

The Company provides retirement benefits to certain non-union and some union employees under several defined benefit plans. Benefits under these plans are determined based upon service time and compensation. Net pension expense for these plans consists of the following components:

(Dollars in thousands)	**Fiscal 1988**	Fiscal 1987
Service cost	**$ 5,750**	$ 5,061
Interest on projected benefit obligation	**11,437**	10,402
Actual return on plan assets	**(13,990)**	(9,023)
Net amortization and deferral	**(398)**	(2,832)
Net pension expense	**$ 2,799**	$ 3,608

The Company's defined benefit pension plans are accounted for on a calendar year basis. The funding for these plans is based on an evaluation of the assets and liabilities of each plan. The majority of plan assets is invested in listed stocks and bonds. A reconciliation of the funded status of these plans is as follows:

	December 31, 1988		December 31, 1987	
(Dollars in thousands)	**Assets Exceed Accumulated Benefits**	**Accumulated Benefits Exceed Assets**	Assets Exceed Accumulated Benefits	Accumulated Benefits Exceed Assets
Actuarial present value of:				
Vested benefit obligation	**$122,741**	**$ 11,830**	$100,427	$ 14,892
Accumulated benefit obligation	**$129,065**	**$ 12,553**	$107,058	$ 16,214
Projected benefit obligation	**$145,729**	**$ 13,976**	$117,003	$ 19,048
Plan marketable securities at fair value	**178,712**	**2,895**	140,541	2,294
Excess (deficiency) of plan assets versus projected benefit obligation	**32,983**	**(11,081)**	23,538	(16,754)
Unrecognized net (gain) loss	**(17,874)**	**2,325**	(5,682)	(1,313)
Prior service cost not yet recognized in net pension expense	**4,693**	**(59)**	5,427	–
Unrecognized net transitional obligation (asset)	**(11,868)**	**(624)**	(21,597)	5,572
Pension asset (liability)	**$ 7,934**	**$ (9,439)**	$ 1,686	$ (12,495)

Assumptions used to measure the projected benefit obligations were:

	Fiscal 1988	Fiscal 1987
Discount rate	**9%**	8% to 9%
Expected rate of return on assets	**9%**	7½% to 9%
Rate of increase in future compensation levels	**6%**	5% to 6%

Net pension expense for the Company's defined benefit pension plans for fiscal 1986 was $3 million. The weighted average assumed rate of return used in determining the January 1, 1987 actuarial present value of accumulated plan benefits was 8.2%.

Notes to Consolidated Financial Statements

Retirement Plans and Benefits (Continued)

The Company has a defined contribution Retirement Savings Plan under which an eligible participant may contribute up to 16% of eligible salary, subject to certain statutory limitations. The Company contributes 4% of such salary, plus 50% of the participant's initial 6% contribution. Participants become fully vested in the Company's contribution after 5 years of service. The Company's contributions charged to operations were approximately $7 million in fiscal 1988, 1987 and 1986.

In addition to the Company's Retirement Savings Plan, the Company also maintains certain other defined contribution plans, primarily for its Waldbaum and Shopwell subsidiaries. Participants contribute to these plans based on a percentage of eligible salary, and the Company contributes to such plans based on specified percentages of the participants' eligible contributions. Contributions charged to operations in fiscal 1988, 1987 and 1986 for these plans were not significant.

The Company also participates in various multi-employer union pension plans which are administered jointly by management and union representatives and which sponsor most full-time and certain part-time union employees who are not covered by the Company's other pension plans. The pension expense for these plans approximated $33, $31 and $24 million in fiscal 1988, 1987 and 1986, respectively. The Company could, under certain circumstances, be liable for unfunded vested benefits or other expenses of jointly administered union/management plans.

In addition to providing pension benefits, the Company provides contributory health and life benefits to approximately 1,500 employees who have elected early retirement. Benefits are paid until such time as the employee reaches age 65. The costs of retiree benefits, which are not significant, are recognized as expense as claims are reported.

Stock Options

The Company has a 1975 and a 1984 Stock Option Plan for its officers and key employees. As of February 23, 1985 all available options under the 1975 Stock Option Plan had been granted, of which 203,550 shares remain unexercised. The 1984 Stock Option Plan provides for the granting of 1,500,000 shares, either as options or Stock Appreciation Rights ("SAR's") at exercise prices equal to the fair value of the Company's common stock on the date the option is granted. SAR's allow the optionee, in lieu of purchasing stock, to receive cash in an amount equal to the excess of the fair market value of common stock on the date of exercise over the option price. Compensation expense relating to SAR's of $8 million, $7 million and $4 million was recorded during the fiscal years 1988, 1987 and 1986, respectively. A total of 571,000 SAR's were granted in fiscal 1988.

A summary of option transactions is as follows:

	Shares	Price Range Per Share
Outstanding February 28, 1987	1,014,329	$ 5.50–$24.75
Granted	30,000	32.38– 39.00
Cancelled or expired	(40,750)	21.50– 34.00
Options exercised	(74,650)	5.50– 15.75
SAR's exercised	(90,332)	5.50– 21.50
Outstanding February 27, 1988	838,597	5.50– 39.00
Granted	571,000	34.75– 46.38
Cancelled or expired	(32,750)	14.75– 34.00
Options exercised	(56,147)	5.50– 15.75
SAR's exercised	(298,100)	11.44– 39.00
Outstanding February 25, 1989	1,022,600	$ 5.50–$46.38
Exercisable at:		
February 27, 1988	543,080	$ 5.50–$24.75
February 25, 1989	481,087	$ 5.50–$46.13

Notes to Consolidated Financial Statements

Summary of Quarterly Results (unaudited)

The following table summarizes the Company's results of operations by quarter for fiscal 1988 and 1987. The first quarter of each fiscal year contains sixteen weeks while the other quarters each contain twelve weeks.

(Dollars in thousands, except per share figures)	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Total Year
1988					
Sales	$3,004,014	$2,327,956	$2,302,389	$2,433,417	$10,067,776
Gross margin	770,081	587,016	600,534	628,772	2,586,403
Income from operations	81,657	61,985	60,166	63,551	267,359
Net income	38,047	29,450	29,495	30,590	127,582
Per share data:					
Net income	1.00	.77	.77	.80	3.34
Cash dividends	.125	.15	.15	.15	.575
Market price:					
High	39.00	43.00	48.00	51.875	
Low	33.75	37.00	41.75	44.375	
Number of stores at end of period	1,172	1,170	1,166	1,241	
1987					
Sales	$2,901,380	$2,201,100	$2,196,157	$2,233,143	$ 9,531,780
Gross margin	730,154	549,749	566,454	572,508	2,418,865
Income from operations	69,402	55,176	53,897	56,892	235,367
Net income	30,368	24,342	23,461	25,272	103,443
Per share data:					
Net income	.80	.64	.61	.66	2.71
Cash dividends	.10	.125	.125	.125	.475
Market price:					
High	37.875	42.625	46.25	39.375	
Low	27.375	37.75	29.25	32.50	
Number of stores at end of period	1,194	1,195	1,197	1,183	

Management's Report on Financial Statements

The management of The Great Atlantic & Pacific Tea Company, Inc. has prepared the consolidated financial statements and related financial data contained in this Annual Report. The financial statements were prepared in accordance with generally accepted accounting principles appropriate to our business and, by necessity and circumstance, include some amounts which were determined using management's best judgments and estimates with appropriate consideration to materiality. Management is responsible for the integrity and objectivity of the financial statements and other financial data included in this report. To meet this responsibility, management maintains a system of internal accounting controls to provide reasonable assurance that assets are safeguarded and that accounting records are reliable. Management supports a program of internal audits and internal accounting control reviews to provide assurance that the system is operating effectively.

The Board of Directors pursues its responsibility for reported financial information through its Audit Review Committee. The Audit Review Committee meets periodically and, when appropriate, separately with management, internal auditors and the independent certified public accountants, Deloitte Haskins & Sells, to review each of their respective activities.

James Wood
Chairman of the Board, President
and Chief Executive Officer

Fred Corrado
Executive Vice President, Chief Financial Officer
and Treasurer

Independent Auditors' Report

To the Shareholders and Board of Directors of The Great Atlantic & Pacific Tea Company, Inc.:

We have audited the accompanying consolidated balance sheets of The Great Atlantic & Pacific Tea Company, Inc. and its subsidiary companies as of February 25, 1989 and February 27, 1988 and the related consolidated statements of operations, shareholders' equity and cash flows for each of the three fiscal years in the period ended February 25, 1989. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of The Great Atlantic & Pacific Tea Company, Inc. and its subsidiary companies at February 25, 1989 and February 27, 1988 and the results of their operations and their cash flows for each of the three fiscal years in the period ended February 25, 1989 in conformity with generally accepted accounting principles.

Deloitte Haskins & Sells

Hackensack, New Jersey
April 24, 1989

Five-Year Summary of Selected Financial Data

(Dollars in thousands, except per share figures)	**Fiscal 1988** (52 weeks)	Fiscal 1987 (52 weeks)	Fiscal 1986 (53 weeks)	Fiscal 1985 (52 weeks)	Fiscal 1984 (52 weeks)
Operating Results					
Sales	**$10,067,776**	$9,531,780	$7,834,859	$6,615,422	$5,878,286
Income before extraordinary credits	**127,582**	103,443	69,010	56,090	50,779
Net income	**127,582**	103,443	95,010	88,290	215,779
Per Share Data					
Income before extraordinary credits	**3.34**	2.71	1.82	1.48	1.35
Net income	**3.34**	2.71	2.50	2.33	5.74
Cash dividends	**.575**	.475	.40	.10	–
Financial Position					
Current assets	**1,068,746**	945,663	898,854	756,594	642,822
Current liabilities	**978,109**	882,953	805,436	582,503	472,530
Working capital	**90,637**	62,710	93,418	174,091	170,292
Current ratio	**1.09**	1.07	1.12	1.30	1.36
Total assets	**2,640,370**	2,243,174	2,080,226	1,663,760	1,363,101
Long-term debt	**254,312**	168,255	196,209	151,306	94,635
Capital lease obligations	**252,618**	225,695	223,933	196,360	148,366
Equity					
Shareholders' equity	**970,843**	851,310	755,718	668,688	582,953
Book value per share	**25.42**	22.32	19.85	17.63	15.48
Weighted average shares outstanding	**38,164,000**	38,106,000	38,017,000	37,839,000	37,599,000
Number of shareholders	**16,079**	19,228	20,717	22,433	24,746
Other					
Number of employees	**92,000**	83,000	81,500	60,000	53,000
Number of stores at year end	**1,241**	1,183	1,200	1,045	1,001
Total store area (square feet)	**36,407,000**	33,111,000	32,609,000	27,648,000	25,313,000

Corporate Officers

James Wood
Chairman of the Board,
President and
Chief Executive Officer

James W. Rowe
Vice Chairman of the Board
and Executive Committee

Eckart C. Siess
Vice Chairman,
Real Estate and Legal Services

Joseph H. McCarthy
Executive Vice President,
Chief Operating Officer

Fred Corrado
Executive Vice President,
Chief Financial Officer
and Treasurer

Michael J. Larkin
Senior Vice President,
East Coast Operations

James L. Madden
Senior Vice President,
Canadian, Midwest and
Southern Operations

Peter J. O'Gorman
Senior Vice President,
Development and Marketing

Ivan K. Szathmary
Senior Vice President,
Chief Services Officer

Robert G. Ulrich
Senior Vice President
and General Counsel

Ernest H. Berthold
Vice President and
Assistant to the C.E.O.

Peter R. Brooker
Vice President, Planning
and Corporate Secretary

Timothy J. Courtney
Vice President, Taxation

R. Paul Gallant
President, Compass Foods

George Graham
President, Metro
New York Group

Kenneth Green
Vice President,
Produce Merchandising
and Procurement

Clifford J. Horler
Vice President,
Engineering and Construction

Robert A. Keenan
Vice President,
Chief Internal Auditor

Peter R. Lavoy
Vice President,
Corporate Merchandising

Francis X. Leonard
Vice President,
Real Estate Administration

H. Nelson Lewis
Vice President,
Human Resources

Mary Ellen Offer
Assistant Corporate Secretary

Joseph P. Quirk
Vice President,
Labor Relations

Peter E. Rolandelli
Vice President,
Management
Information Systems

Michael J. Rourke
Vice President,
Communications and
Corporate Affairs

John D. Ryder
Vice President, Marketing

Richard J. Scola
Vice President
and Assistant General Counsel

J. Paul Stillwell
President,
Supermarket Service Corp.

William J. Tennant
Vice President
and Controller

Burton J. Weinbaum
President,
A&P Northeast

William T. Wolverton
Vice President, Warehousing
and Transportation

A&P Canada
John P. Dunne
President

Borman's, Inc.
Paul Borman
Chairman

Marvin Biltis
President

Kohl's Food Stores
Larry Zettle
President

Waldbaum, Inc.
Aaron Malinsky
President

Kenneth Abrahams
President
Food Mart Division

Directors

James Wood (c)
Chairman of the Board,
President and
Chief Executive Officer

Rosemarie Baumeister (b)
Executive Vice President,
Tengelmann
Warenhandelsgesellschaft,
West Germany

Harold J. Berry (b)(c)(d)
Vice Chairman of the Board
Emeritus, Merrill Lynch,
Pierce, Fenner & Smith, Inc.

Walter D. Dance (a)(c)(d)(e)
Director Emeritus and
Consultant, General
Electric Company

Christopher F. Edley (a)(d)(e)
President, United Negro
College Fund, Inc.

Helga Haub (c)(d)

Barbara Barnes Hauptfuhrer (a)(c)(e)
Director of various
corporations

Paul C. Nagel, Jr. (a)(d)
Director of various
corporations

James W. Rowe (c)(d)(e)
Vice Chairman of the Board
and Executive Committee

Eckart C. Siess (c)(e)
Vice Chairman,
Real Estate and Legal Services

Fritz Teelen
President, Plus subsidiary
Tengelmann
Warenhandelsgesellschaft,
West Germany

Henry W. Van Baalen (b)
Business Consultant

(a) Member of
Audit Review Committee,
Paul C. Nagel, Jr., Chairman
(b) Member of
Compensation Policy Committee,
Harold J. Berry, Chairman
(c) Member of
Executive Committee
James Wood, Chairman
(d) Member of
Finance Committee
Paul C. Nagel, Jr., Chairman
(e) Member of
Retirement Benefits Committee,
Barbara B. Hauptfuhrer,
Chairman

Shareholder Information

Executive Offices
Box 418
2 Paragon Drive
Montvale, NJ 07645
Telephone 201-573-9700

Transfer Agent and Registrar
American Stock Transfer
and Trust Company
99 Wall Street
New York, NY 10005
Telephone 212-936-5100

Independent Certified Public Accountants
Deloitte Haskins & Sells
411 Hackensack Avenue
Hackensack, New Jersey
07601

Shareholder Inquiries, Publications and Address Changes
Shareholders, security analysts, members of the media and others interested in further information about the Company are invited to contact the Corporate Affairs Department at the Executive Offices in Montvale, New Jersey.

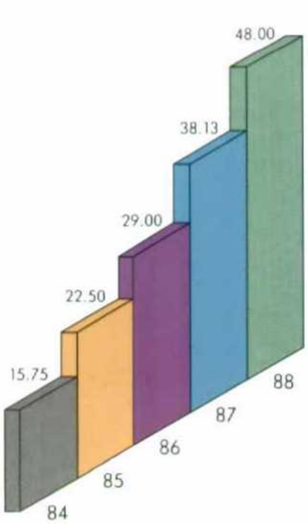
Correspondence concerning address changes should be directed to
American Stock Transfer
and Trust Company
99 Wall Street
New York, NY 10005.
Telephone 212-936-5100

Form 10-K
Copies of Form 10-K filed with the Securities and Exchange Commission will be provided to shareholders upon written request to the Secretary at the Executive Offices in Montvale, New Jersey.

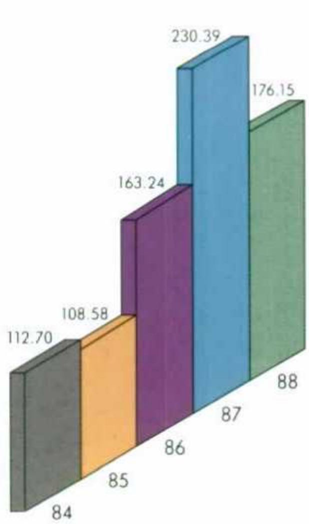
Annual Meeting
The Annual Meeting of Shareholders will be held at 10:00 a.m. on Tuesday, July 11, 1989 at the Hyatt Regency Baltimore, 300 Light Street, Baltimore, Maryland. Shareholders are cordially invited to attend.

Common Stock
Common stock of the Company is listed and traded on the New York Exchange under the ticker symbol ''GAP'' and has unlisted trading privileges on the Boston, Midwest, Philadelphia, Cincinnati, and Pacific Stock Exchanges. The stock is reported in newspaper and periodical tables as ''GtAtPc.''

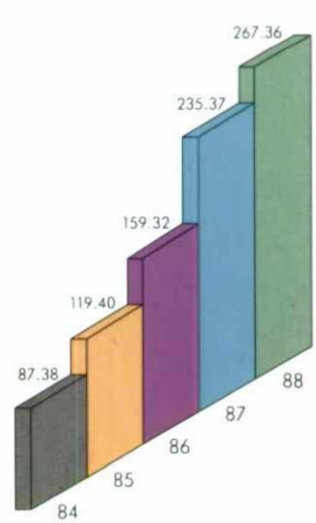
Market Price per Share at Year End
In Dollars



Capital Expenditures
Millions of Dollars



Income from Operations
Millions of Dollars



Total Assets
Billions of Dollars